Hemispheric integration and subregionalism in the Americas

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Like current processes in the European Union, integration processes in the Americas are at present focused on a vision of 'enlargement'. As part of a broader process of hemispheric integration, the central project is to construct by 2005 a Free Trade Area of the Americas (FTAA) stretching 'from Alaska to Tierra del Fuego', as George Bush famously put it in his announcement in 1990 of the FTAA's forerunner, the Enterprise for the Americas Initiative (EAI). Like EU enlargement, but to a much greater extent, the FTAA project envisions deepened integration among economies of widely disparate sizes and levels of development; and in both regions this deepened integration is premised on processes of market reform and democratization that have swept Latin America and eastern and central Europe over the past couple of decades. The FTAA, however, is distinct from the project of European enlargement in two crucial senses. First, the project of European enlargement entails incorporating new countries into the existing structures of the EU. The FTAA, by contrast, does not constitute an enlargement of a bloc or institutional structure already in existence. This is so despite the initial inclinations of the United States towards enlargement of the North American Free Trade Agreement (NAFTA) as the template for hemispheric integration, thereby constructing a 'hub–spoke' type of integration in which South American, Central American and Caribbean countries would be brought into its orbit through accession to NAFTA. The notion of NAFTA enlargement, however, was quickly vetoed, and it was agreed at the 1998 FTAA trade ministerial meetings in San José, Costa Rica, to permit 'bloc bargaining' as the format for subsequent negotiations. Second, and as a result of these developments, the FTAA is distinct from the EU in that it seeks to build itself on, and thus integrate, existing subregional blocs. This latter characteristic also makes the FTAA unique among contemporary regionalist projects.

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As a consequence of these distinctive features, observation of hemispheric integration processes in the Americas raises a number of interesting questions about the relationship between subregionalism and the wider regionalist project. The most obvious dimension of this question concerns the impact on subregional blocs of an FTAA, and this question in turn can be approached most readily in terms of whether an FTAA will strengthen or weaken subregionalism. However, the relationship between subregionalism and hemispheric regionalism needs to be understood not only in terms of the likely impact of an FTAA should one in fact materialize—we must bear in mind that an FTAA is not yet a concrete reality—but also in terms of the impact that the *process* has had over recent years on the evolution of subregionalism. In this sense, the present discussion would seem to be couched most usefully in the framework of a question of the relationship between subregionalism and hemispheric regionalism, as opposed to 'the FTAA', recalling the definition of regionalism as a 'state- or states-led project designed to reorganise a particular regional space along defined economic and political lines',[1] and avoiding the dangers of making misplaced assumptions about the outcome of such projects. With this in mind, the article argues that the impact of hemispheric regionalism on existing subregionalist projects can best be understood not through a simplistic strengthening/weakening dichotomy, but rather as involving a substantial reconfiguration of subregionalism, as a result of the complex interaction of hemispheric processes and the internal dynamics of the subregional blocs.

By extension, then, it is not possible to talk of a single and generalizable relationship between hemispheric regionalism and subregionalism. The relationship not only depends on one's theoretical preferences and interpretation of the structural significance of these processes, but also must vary according to the particular subregion in question. To put this another way, the forms of subregionalism that emerge from this interaction depend, on the one hand, on the location of the individual subregional bloc in the regional political economy *and* in the global political economy. On the other hand, they depend also on the interaction of these structural factors with agency at both the domestic and subregional levels. The relationship between subregionalism and hemispheric regionalism thus varies not only across subregions, but also, at least potentially, across the individual member states of those subregions. If we were able to assume that member states were motivated by identical interests in the subregional, regional and global arenas, and that cooperation among them was absolutely the norm, then assertions about the significance of hemispheric regionalism for the 'Mercosur' or 'CARICOM' would be relatively less problematic.[2] The difficulty, of course,

[1] Anthony Payne and Andrew Gamble, 'Introduction: the political economy of regionalism and world order', in Andrew Gamble and Anthony Payne, eds, *Regionalism and world order* (Basingstoke: Macmillan, 1996), p. 2.

[2] The members of the Mercosur (Mercado Común del Sur: Southern Common Market) are Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. The members of CARICOM (Caribbean Community) are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, Suriname, St Vincent and the Grenadines, and Trinidad and Tobago.

is that no subregional arrangement fits this description, rhetorical flourishes and political pipedreams notwithstanding. The analysis thus has to take as its point of departure the issue of the relationships (plural) between hemispheric regionalism and subregionalism, and accommodate as its units of analysis both the subregional bloc and the states which comprise it.

The focus in this paper is on the Mercosur, with some comparative glances at other subregions as points of illustration. It starts with a discussion of the context and the broad significance of hemispheric regionalism in the Americas, and the type of political economy that it represents and reinforces. The subsequent sections consider the evolution of subregionalism in this context, with particular attention to (a) strategic 'bloc bargaining' issues, and (b) the policy challenges generated by the FTAA project. The final section sketches out the principal characteristics of the reconfiguration of subregionalism which, I suggest, is the most useful lens through which to understand the relationship between hemispheric and subregional processes.

Hemispheric regionalism, neoliberalism and US hegemony

Regionalist projects in the Americas are integral to the strategies of economic liberalization and neoliberal restructuring that took root across the region over the course of the 1990s. The establishment of NAFTA and the Mercosur, and the reinvigoration of flagging integration processes in the Andean, Caribbean and Central American subregions, were premised on the notion of 'open regionalism' and articulated directly as strategic responses to the policy imperatives generated by globalization processes. In this sense, regionalism approximated a type of 'meso-globalization',[3] which featured a 'bottom-up' process of integration consistent with the objective of increasingly deep engagement with the process of globalization.[4] Apart from facilitating trade liberalization, open regionalism was designed to enhance the potential for countries to attract foreign direct investment (FDI), as a result of the lure of larger markets to multinational corporations (MNCs) eager to take advantage of economies of scale. From a political viewpoint, as well, regional integration—involving the relocation of decision-making authority and a consequent contraction in space for discretionary government policy—was of particular utility in deflecting the political pressures fanned by the impact of neoliberal policies on, for example, formerly protected or uncompetitive industries, public sector employees and unskilled workers.[5] In this sense, subregionalism can be seen to be as much

[3] Nicola Phillips, 'Governance after financial crisis: South American perspectives on the reformulation of regionalism', *New Political Economy* 5: 3, 2000, p. 386.

[4] Diana Tussie, 'In the whirlwind of globalization and multilateralism: the case of emerging regionalism in Latin America', in William D. Coleman and Geoffrey R. D. Underhill, eds, *Regionalism and global economic integration: Europe, Asia and the Americas* (London: Routledge, 1998), p. 92.

[5] Paul Bowles, 'Regionalism and development after(?) the global financial crises', *New Political Economy* 5: 3, 2000, p. 439.

about domestic political economy (the national capitalist project) as about a 'new international political economy' at the regional and global levels.[6]

Hemispheric integration must similarly be understood as an attempt further to entrench the neoliberal rules of the game, reflecting 'the triumph of economic liberalism, of faith in export-led growth and of belief in the centrality of the private sector to development processes'.[7] In this sense, it represents a device by which the globalizing neoliberal project is further embedded in the region, and by which the region is further embedded in the globalizing world economy. By extension, it forms a central part of the social restructuring processes that create the necessary conditions in which neoliberalism might flourish, by facilitating the processes which reinforce the dominance of capital/business in the regional political economy. Hemispheric regionalism thus represents a specific strategy on the part of its proponents—primarily governments and big business interests—to 'lock in' a political economy ideologically and strategically hospitable to the rules of the neoliberal game. Of these proponents, the US government has been the driving force, and its hegemony since the early 1970s has been moulded systematically to the purpose of disseminating the twin values of neoliberalism and democracy. The hemispheric project thus constitutes not only an attempt further to reinforce the framework of a neoliberal (and democratic) political economy in the Americas, but also an entrenchment of both the global and the regional hegemony of the US itself.

While a full discussion of the nature and extent of this hegemony is not possible here, the important point is that the significance of hemispheric regionalism cannot be captured by focusing solely on the *immediate* interests of the US in building a free trade area, or on the ability of the US unilaterally to define or dominate the negotiating agenda. At first blush, indeed, the roots of US interest in an FTAA are not entirely evident. One is struck first and foremost by the relative insignificance of the Latin American region south of Mexico for key US economic interests. The importance of economies decreases as one moves south, with Mexico and the Caribbean basin increasingly integrated into the US political economy, and the Southern Cone economies of the Mercosur representing only a very modest portion of trade flows to and from the US. There are also questions to be asked about the 'value added' for the US of a free trade area with Latin America, in much the same way as the motivations of the EU in negotiating with the Mercosur have been seen by some to be simply a 'strategic mistake' offering little concrete benefit.[8] The Mercosur economies

6 Paul Cammack, 'MERCOSUR: from domestic concerns to regional influence', in Glenn Hook and Ian Kearns, eds, *Subregionalism and world order* (Basingstoke: Macmillan, 1999), p. 96.

7 Anthony Payne, 'The United States and its enterprise for the Americas', in Gamble and Payne, eds, *Regionalism and world order*, p. 106.

8 While not for discussion here, the interest of the EU in Mercosur can be explained most readily as a strategic response to the FTAA process, driven particularly by concerns about the dominance of the US in a future FTAA. EU Trade Commissioner Pascal Lamy's statements consistently reflect this unease, as have those of Antonio Guerres as president of the Council of the European Union. The latter described an EU–Mercosur agricultural agreement as 'building a new multipolar world order that can limit the United States' natural hegemony' (cited in 'EU on FTAA', http://www.tradecompass.com, 15 May 2001,

already present few or no barriers to investment, nor to trade in the products that would qualify for treatment under the agreement, agriculture being excluded from the negotiating agenda. Similarly, the benefits of market access in an FTAA would accrue predominantly to the Latin American region, given that the barriers are concentrated in the US economy. Rather than for immediate economic benefit, then, the regionalist project is of interest to the US for the possibilities it offers for the reinforcement of the structural and ideological foundations of US hegemony, consistent with its parallel global strategies.

In this respect, several dimensions of the US's engagement with hemispheric regionalism deserve particular attention. The first concerns the connection of US regional interests precisely to the evolution of its global hegemony. An influential interpretation of this connection has depicted the EAI (and by extension the FTAA) as a direct reflection of and strategic response to a process of 'global hegemonic decline', manifested in 'a growing realisation in Washington that the US was no longer able to shape on its own the rules of a consensual international economic order'.[9] The argument that the hemispheric regionalist strategy corresponds with the changing nature of US power is well taken, but questions might be raised about the direction that this change is seen to have taken, and specifically about whether the term 'decline' is the appropriate one. By the late 1990s, a revision of the 'declinist' school was being demanded forcefully by those who saw it as a reflection of a specific, and ultimately quite fleeting, phase in the popular self-perception of the US, asserting that by the end of the 1990s there were few grounds for disputing that the hegemony of the US was becoming anything but further entrenched.[10] In this light, the EAI and associated initiatives might best be seen as a response to temporary *perceptions* about declining hegemony within the US, rather than taking this decline as actual or given.

There are nevertheless strong grounds for observing that the nature of US hegemony—in both the regional and the global setting—has changed in the way that it is exercised. While unilateralism is clearly still a strong tendency (and an entirely feasible one), it frequently takes a more negotiated and collaborative form, echoing Robert Cox's reinterpretation of contemporary hegemony as involving a blend of consensual as well as coercive elements.[11] The prevalence of 'consensual' dimensions in US hegemony in the Americas has been facilitated first and foremost by changes in the Latin American region, specifically in the moves towards market reform and democratization that have created the conditions

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and also in Henry Kissinger, 'Brazil's "destiny": an obstacle to free trade?', *Washington Post*, 15 May 2001). The corollary is that an EU–Mercosur agreement is likely to be concluded only if an FTAA is indeed agreed in 2005.

[9] Payne, 'The United States and its enterprise for the Americas', p. 104.

[10] Michael Cox, 'Whatever happened to American decline? International relations and the new United States hegemony', *New Political Economy* 6: 3, 2001, pp. 311–40.

[11] See Robert W. Cox, 'Social forces, states and world orders: beyond international relations theory', *Millennium: Journal of International Studies* 10: 2, 1981, pp. 126–55; Robert W. Cox, *Production, power and world order: social forces in the making of history* (New York: Columbia University Press, 1987).

in which 'what would have been seen as imperialism in earlier decades now had the promise of reinforcing development aspirations'.[12] We will see shortly that traditional forms of suspicion of the US have not been entirely replaced by a new bed of roses; but certainly these shifts, along with the continuing importance of the US in achieving a range of these development objectives,[13] have reconfigured the regional political landscape in some important ways. However, it is also clear that a consensual approach emerges from necessity rather than from any more calculated articulation of self-interest by the US. While hemispheric regionalism manifestly reflects the entrenchment of a particular type of political economy consistent with the global dissemination of the neoliberal agenda, the specific form that it is taking has departed quite significantly from the template which the US sought to impose at the beginning of the negotiations in the mid-1990s. Both the politics of the process and the substance of the putative agreement also reflect to an important extent the interaction of the dominant poles of the US and Brazil, along with the constituencies that they may respectively represent, rather than the simple dominance of the northern hegemon.

Second, beyond questions about the extent to which an FTAA would be of significant economic benefit to the US, the US government does have a range of policy-related incentives to foster hemispheric regionalism. One of the main reasons for US interest in an FTAA derives from the opportunity it presents to push forward a 'new trade agenda' at a time when the progress of multilateral trade negotiations has been looking precarious, and when the diminishing ability of the US to control the multilateral agenda has been of political concern. The result has been that the promotion of the new trade agenda in the Americas has appeared increasingly to be a more inviting strategy than continuing to struggle against myriad obstacles in the multilateral arena.[14] The slowing of multilateral dynamism has combined, furthermore, with a marked diminution in the engagement and compliance of the US with the principles of the multilateral system. One explanation of this focuses on the extent to which the emergence of a more multipolar world has diminished the capacity of the US unilaterally to shape the changing multilateral system. Where there has been a divergence between US interests and trends in the multilateral arena, the former have invariably been asserted through an increasingly unilateral and aggressive trade policy which has generated an unhappy record in respect of compliance with WTO rules.[15] Whether the result of abject disaffection or simply of a zeal not accommodated

[12] Georges A. Fauriol and Sidney Weintraub, 'The century of the Americas: dawn of a new century dynamic', *Washington Quarterly* 24: 2, 2001, p. 144.

[13] Peter Hakim, 'The uneasy Americas', *Foreign Affairs*, March–April 2001.

[14] Victor Bulmer-Thomas and Sheila Page, 'Trade relations in the Americas: Mercosur, the Free Trade Area of the Americas and the European Union', in James Dunkerley and Victor Bulmer-Thomas, eds, *The United States and Latin America: the new agenda* (Cambridge, MA: Harvard University Press, 1999), pp. 89–90; Nicola Phillips, 'Regionalising multilateralism? Hemispheric integration in the Americas and the governance of world trade', paper presented at the annual plenary meeting of the Latin American Trade Network (LATN), Santiago, Chile, 12–13 Dec. 2002.

[15] See Diana Tussie, 'Multilateralism revisited in a globalizing world economy', *Mershon International Studies Review* 42, 1998, pp. 189–90.

by the ponderous multilateral process, then, US interest in an FTAA coalesces around the possibilities for both compensating the deficiencies of multilateral negotiations and speeding up the liberalization process. It is for this reason that the vision of the FTAA favoured by the US has consistently been of a 'WTO-plus' arrangement, in which WTO rules serve as the baseline and the FTAA negotiations aim to exceed such rules in their agreed provisions. It is also for this reason that US negotiators place emphasis on a strategy of sequential trade negotiations, which rests on the generation of what Craig VanGrasstek has called a 'spiral of precedents', which can then be deployed as the baseline for subsequent bilateral and multilateral trade negotiations.[16] The idea that the FTAA will entrench a pattern of preferential arrangements in the Americas which will be of durable or exclusive advantage to the countries of the region is consequently dubious.

For the US, the FTAA project is thus less about trade *expansion*—in contrast with its appeal for Latin American and Caribbean countries—and more about instilling a range of trade *disciplines* in the region which reflect a set of extra-regional and global interests at least as much as they respond to regional priorities. More precisely, though, while not about the expansion of trade in *goods*, it is manifestly about the expansion of trade in other areas, notably services, and it is here particularly that there is a considerable divergence between the interests of key Latin American actors and those of the US. The 'WTO-plus' format is one which reflects US trade policies, and although it has been accepted as the guiding principle for the final stages of the negotiations, the position of Mercosur members has been that an FTAA process should also be 'WTO-compatible' and *genuinely* 'WTO-plus'. In other words, if 'WTO-plus' is to be the rule of thumb, it should be expected that this would extend across the full range of negotiating areas, and most especially to the area of market access, which is considered still to fall short of 'WTO-compatible' status. This central concern to ensure fuller implementation of provisions agreed in the Uruguay Round stands at odds with the US vision of the FTAA, which is dominated (along with issues such as intellectual property, government procurement and so on) by the possibilities afforded by hemispheric free trade for forcing open regional services sectors, especially those of the large Southern economies. It should be noted that trade in services is not exclusively a concern of the US: in a number of sectors—such as transport, construction, software and medical treatment—Latin American and Caribbean partners view hemispheric trade as a useful 'apprenticeship' for exporting such services to the rest of the world.[17] Tourism would be another obvious addition to this list.

Apart from services, the prime concern in the office of the United States Trade Representative (USTR) relates to the protection of US investments. This is seen most clearly in the interest in extending to a future FTAA agreement the

[16] Craig VanGrasstek, 'What is the FTAA's role in the USA's global strategy?', *Capítulos del SELA* 54, 1998, pp. 169–70.

[17] Victor Bulmer-Thomas, 'Introduction', in Victor Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean: the political economy of open regionalism* (London: Institute of Latin American Studies, 2001), p. 8.

so-called 'investor-state' provision contained in NAFTA, which grants to corporations a legal status similar to that of states and expands their ability to use trade agreements to challenge local regulatory legislation. Along with opposition to performance requirements (PRs) on corporations and regulation of capital movements,[18] the USTR's commitment to 'investor-state'-type arrangements augurs an entrenchment of investors' rights at the heart of the hemispheric project, whether or not the NAFTA pattern is directly replicated. Other hallmarks of the US dominance of the FTAA agenda can be seen in the government's refusal to permit inclusion on the negotiating agenda of its domestic trade laws on anti-dumping and countervailing duties, despite the centrality of these concerns to Latin American partners; the inevitable incorporation of clauses on labour and environmental standards if any agreement is to pass successfully through Congress; and finally the nature of the bill granting Trade Promotion Authority (TPA) to the executive in 2002.[19] Briefly, the TPA bill not only allows Congress much more significant leverage over the process than it enjoyed in previous instances of fast-track negotiating authority, but also makes significant concessions to certain protectionist groups—most notably Florida producers of citrus fruits, sugar farmers and the textile industry (plus more recent concessions to the steel industry)—to the disadvantage of regional partners. The shape of TPA is thus significant in that it reinforces the concentration of protectionism in sectors of key strategic importance to a variety of regional economies and particularly to those most dependent on the US market or integrated into its production structures, particularly in the textiles and garment assembly sectors.

Third, the regional and global strategies of the US cannot be understood simply in economic terms. Rather, beyond the expansion of neoliberal discipline, US interests in the region are defined far more robustly by the security and democracy agendas. The key issues in the security agenda—drugs, immigration, the environment, terrorism and insurgency, oil and energy—are thus seen to call for an approach which increases the leverage of the US in the areas of particular concern and the vehicle through which this objective is pursued is precisely the hemispheric project. On the one hand, the FTAA agenda articulates an integrated approach which weaves security-related strategies into a broader economic agenda. While it might well be the case that these concerns apply principally, with the exception of Mexico, to countries on the periphery of the regional political economy,[20] it is nevertheless important to recognize that these are also the countries most economically dependent on the US and thus most compelled to favour an FTAA. The extension of potential market access benefits in an FTAA consequently offers the US some considerable leverage in its 'integrated' strategy for dealing with key security issues.

[18] Karen Hansen-Kuhn, 'Free Trade Area of the Americas', *Foreign Policy in Focus* 6: 12, 2001, p. 2, http://www.foreignpolicy-infocus.org.

[19] What formerly was known as 'fast-track' negotiating authority, having been refused to Clinton in 1998, was restyled Trade Promotion Authority by Bush in 2001 and subsequently granted by Congress in 2002.

[20] Jean Grugel, 'Latin America and the remaking of the Americas', in Gamble and Payne, eds, *Regionalism and world order*, p. 161.

On the other hand, the 'Summitry of the Americas' process seeks to entrench regionally agreed rules, standards and orientations in a range of policy areas related to the security and democracy agendas. Indeed, in this respect it is important to recognize that the trade and investment components of the process were initially the second-order issues, which became central to the project largely as a result of pressure and interest from Latin American countries. There is some (unconfirmed) evidence that trade was incorporated into the agenda for the first Summit of the Americas (Miami, 1994) only a couple of months before that meeting, but much stronger evidence for this argument lies in the dominance of non-trade issues in the presidential rhetoric surrounding the hemispheric process.[21] The trade agenda had moved to centre stage by the 1998 Santiago summit, although it is notable that trade issues were hastily diluted when it became apparent that President Clinton would be travelling to Chile without renewed fast-track negotiating authority. Some 150 other issues were hurriedly added to the agenda, a good number of which were simply padding.[22] The momentum specifically for the *trade* project, then, has come less from the US and much more from Latin American countries, and perhaps less also from the presidents of the region and more from ministers and regional business interests.

This is, at the risk of labouring it, an important point. The common assumption that the FTAA process was instigated and driven by the US is misleading. It is plausible that the process of hemispheric integration took off almost by accident. Following the announcement of the EAI by President Bush (senior), there was a strong impression that the enthusiasm with which it was received in the rest of the region took the US government rather by surprise, and that the initial proposal was viewed in Washington as rather more symbolic than substantive, as reflected in the scant attention it received in the media at the time.[23] Second, the momentum gathered again under Clinton only with the signing of NAFTA and the concrete articulation of an 'FTAA' project at the Miami summit. Even then, the Clinton administration's 'benign neglect' of the Americas—apparently more of a default position than a strategy—did not prevent significant progress on the project, predominantly in the technical working groups, but clearly did not articulate a role of strong US leadership in any part of the Americas agenda. The failure to win renewed fast-track authority in 1998 was widely interpreted as evidence of the lack of serious US interest in the FTAA project, and much of the undoubtedly impressive progress to date has been made without any clear political leadership. The George W. Bush administration did take up the running in the president's early attempt to make the Americas the centrepiece of his foreign policy agenda, but this has been thrown somewhat off course by domestic political obstacles, the tug of war in the White House itself between Bush's regional priorities and the multilateral priorities of the USTR, the Treasury

[21] See Jaime Gerardo Delgado Rojas, 'Los temas no comerciales del ALCA', *Contribuciones del CIEDLA* 1: 61, 1999.

[22] Sidney Weintraub, *Development and democracy in the Southern Cone: imperatives for US policy in South America* (Washington DC: CSIS Press, 2000), p. 62.

[23] Fauriol and Weintraub, 'The century of the Americas', p. 143.

Secretary and others, and the precipitous shift in the foreign policy agenda occasioned by the 2001 terrorist attacks in New York and Washington.

To sum up, then, while hemispheric regionalism is clearly a mechanism by which US hegemony, WTO disciplines and neoliberalism are entrenched and advanced, the project is not one defined by active US leadership, and its specific form is not dictated solely by US interests. Indeed, while the former is commonly lamented, the latter is in good part the result of an aversion to such a prospect in Latin America, this aversion having shaped negotiating positions and, crucially, the articulation and pursuit of subregional strategies.

Now that we have established the broad structural significance of the hemispheric regionalist project for the Americas, then, let us look in more detail at its significance for existing subregionalist projects, and particularly for the Mercosur.

Subregionalism and hemispheric integration

The regionalist project in the Americas is noteworthy for the extent of diversity among member countries that it seeks to accommodate. This diversity operates along a wide variety of axes, including population size, living standards, market size, per capita income, gross domestic product (GDP) and so on. Moreover, the region of the Americas draws together a whole gamut of economic structures and profiles. As table 1 demonstrates, it includes some of the most 'open' economies and subregions in the world, measured in terms of trade relative to GDP, as well as economies and subregions which are significantly inward-looking by the same measurements. The Mercosur fits in the latter category: for Brazil and Argentina, especially, the weight of the internal market is significantly greater than that of the external sector. Trade openness indicators of imports/GDP and exports/GDP were respectively 9.6% and 8.9% in 1999, contrasted with 33.9% and 20.9% for the Central American Common Market (CACM) and 12.8% and 15.7% for the Andean Community (AC).[24] By the same token, as demonstrated in table 2, dependence on the US and regional markets varies across the Americas. Those subregions geographically nearest to the US—Central America and the Caribbean—are highly dependent on the US market for their exports. Manufactured exports from CACM and CARICOM, particularly, rarely break out of the regional marketplace, while the Mercosur is significantly less tied to the North American market. Both the US and Brazil have highly diversified trade structures,[25] and in this sense are 'global' rather than regional traders: for much of the 1990s around 60% of Brazil's trade was with the EU and the rest of the world. Indeed, by the end of the decade the EU was for Brazil a significantly more important market than the US. It is, by

[24] The members of the Central American Common Market (CACM) are Costa Rica, El Salvador, Guatemala, Nicaragua and Honduras; of the Andean Community (AC), Bolivia, Colombia, Ecuador, Peru and Venezuela.

[25] José Tavares de Araujo, 'FTAA: risks and opportunities for Brazil', Organization of American States Trade Unit, Washington DC, March 1998, p. 9.

Table 1: Selected trade openness measures, 1990–1999 (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Imports/GDP										
W. hemisphere	9.9	9.5	10.2	10.5	11.2	11.7	11.9	12.4	12.5	13.3
NAFTA	10.2	9.8	9.3	9.7	9.9	11.0	11.2	11.3	11.9	11.9
LAC[a]	10.1	8.2	10.2	11.3	10.8	12.0	12.3	12.5	14.9	19.7
LAC excl. Mexico	8.0	7.4	10.2	10.7	10.4	11.0	10.8	11.9	11.7	13.8
Mercosur	4.7	4.2	6.3	6.9	7.5	7.6	7.7	8.7	8.6	9.6
Andean Community	12.5	13.7	16.4	16.9	15.3	15.8	15.2	15.8	15.4	12.8
CARICOM	36.3	40.2	41.3	35.9	40.5	45.3	39.5	45.5	n/a	n/a
CACM	24.2	24.6	23.6	26.6	25.8	24.6	27.6	25.4	27.7	33.9
Exports/GDP										
W. hemisphere	8.5	8.3	8.5	8.5	9.4	10.3	10.5	10.8	10.2	10.6
NAFTA	8.1	8.2	8.3	8.2	9.2	10.3	10.5	10.9	10.3	10.3
LAC	12.3	9.9	11.3	11.2	11.6	13.2	13.8	14.0	13.4	19.7
LAC excl. Mexico	11.3	8.8	10.8	10.5	10.5	10.2	10.4	10.6	9.5	13.3
Mercosur	7.5	5.7	7.8	7.8	7.5	7.1	7.0	7.3	7.3	8.9
Andean Community	23.0	18.9	17.1	16.9	17.1	15.8	18.8	17.2	13.5	15.7
CARICOM	30.5	28.0	27.4	21.9	32.6	32.0	27.9	28.5	16.9	n/a
CACM	15.9	16.1	15.5	14.7	15.0	16.5	17.7	17.0	19.8	20.9

[a] Latin America and the Caribbean.

Source: Inter-American Development Bank.

Table 2: Direction of manufactured exports by subregional grouping, averages 1990–1999, as % of total manufactured exports

	Western hemisphere	*Respective subregion*	*European Union*	*Asia*	*Rest of world*
Mercosur	66.0	26.7	17.5	6.8	9.7
AC	81.9	32.6	9.7	3.4	5.1
CACM	92.3	46.9	4.4	1.4	1.8
NAFTA[a]	49.0	43.2	16.1	14.9	10.0

[a] Figures for NAFTA are 1990–8 averages.

Source: Elaborated on basis of data from Inter-American Development Bank.

extension, the profiles of Brazil and the United States that make the FTAA project distinct from other regional arrangements in the world.

Furthermore, among those economies in the Americas most dependent on the US market two distinct groups of countries should be identified. The first group comprises exporters of primary products (Nicaragua, Honduras, Venezuela and Ecuador); the second, exporters of manufactured products. Within the latter, it is important further to distinguish between NAFTA members (Canada and Mexico) and those economies which are increasingly styled as export-processing zones (EPZs), based on intensive use of unskilled labour in manufacturing activities (such as Jamaica, the Dominican Republic, El Salvador, Haiti and many other countries of the English-speaking Caribbean).[26] Similarly, in the Mercosur, the more diversified economic profile of Brazil (and also Chile) coexists with the agricultural specializations of Argentina and the smaller members, while Chile is distinguished by a significant level of trade in services which is not matched in other Mercosur countries.

For these reasons, a consideration of 'the' impact of hemispheric regionalism on subregionalism is misplaced: as already noted above, the impact varies according to the particular subregional bloc in question. Yet despite the extent of regional diversity and inequality, most analyses of the significance of hemispheric regionalism and an FTAA tends towards blanket assertions, generally inclining towards the idea that existing subregions will be absorbed into a wider region and into a set of more encompassing agreements at the hemispheric level. The usual argument is that the economic rationale for subregionalism will be hollowed out by an eventual FTAA. Given that subregional arrangements are by their nature premised on the extension of trade preferences to member countries, the construction of an FTAA will necessarily and logically remove the rationale for the smaller trade blocs it encompasses. The upshot, according to this argument, is that the loss of their economic rationale will generate a process by which the structures of preferences and tariffs that define these blocs are gradually or suddenly erased by the provisions of hemispheric free trade. Such is certainly the ultimate preference of US negotiators. Subregional blocs, especially in the view of US business and members of Congress, have little political relevance (and of course minimal economic weight) given that they are perceived to be simply the forerunners and facilitators of the 'levelling' of the hemispheric playing field implied by the FTAA. This vision of 'hemispheric globalization' consequently renders subregional blocs redundant.[27] In addition, in the case of the Mercosur, and other blocs such as CARICOM, the persistence of political fragility and patchy or shallow integration is seen to merit a pessimistic prognosis, in the sense that the bloc is perceived as ill-equipped to meet the challenges of an FTAA economically, institutionally and politically. The result,

[26] Gustavo Svarzman, 'La Argentina y el Mercosur ante el proceso de integración hemisférica', *Boletín Informativo Techint* 295, July–Sept., p. 46.

[27] Sistema Económico Latinoamericano, 'Reflexiones sobre la dinámica de las relaciones externas de América Latina y el Caribe', *Capítulos del SELA* 55, 1999, pp. 36–7.

then, is a vision of the obsolescene of weak and fragmented subregional projects under the onslaught of hemispheric free trade. As Paul Cammack argues:

> [The Mercosur] is an ineffective regional association with little remaining capacity to contribute to regional or global integration, and little capacity to promote other goals … It is likely to be marginalised by profound differences of perspective between its major partners, and overtaken by broader processes such as the move towards a Free Trade Area of the Americas.[28]

Issues of institutional and political weaknesses are clearly crucial factors to be taken into account, especially in the Mercosur of the early 2000s. However, I suggest that there are some convincing grounds for taking issue with the idea that subregional projects will be 'overtaken' by wider regional processes; indeed, I suggest that subregional projects exhibit important signs of reconfiguration which, while far from equating with a 'strengthening' process, do not herald obsolescence. This reconfiguration is most evident in two areas: in the strategic articulation of common negotiating positions at the hemispheric level (the 'bloc bargaining' issue), and in the diverse policy challenges that the hemispheric and FTAA processes generate.

Bloc bargaining

With the exception of the NAFTA, all the subregional blocs in the Americas have engaged with the process of hemispheric integration from subregional platforms, and these platforms, at least rhetorically, extend to trade negotiations across the board. The articulation of subregionalism as a strategic mechanism for engagement in the hemispheric process is envisaged as a means of bolstering subregional projects against 'absorption' into an FTAA, and also as a means of strengthening bargaining power in hemispheric and other negotiations. So, for example, Enrique Iglesias, president of the Inter-American Development Bank, observed in his statement to trade ministers at the November 1999 FTAA ministerial meeting in Toronto that

> The FTAA started out with 34 negotiating positions. We now have considerably less thanks to the emergence of joint negotiations by Mercosur, the Andean Community and CARICOM. This manifestation of integration in our subregions should not only facilitate FTAA negotiations but also has served as a model for joint negotiations in other fora. Strategic responses anticipating an emerging FTAA also undoubtedly are stimulating some of the increased activity in deepening and widening existing subregional arrangements.

Crucially, the crystallization of this pattern of bargaining and negotiation has been propelled by the extent of disparities in economic and political weight that characterizes hemispheric integration in the Americas, and by the issue of US

[28] Paul Cammack, 'Mercosur and Latin American integration', mimeo, University of Manchester, 2001, p. 1.

dominance and resistance to it. The only feasible counterweight to this dominance is collective action, and the only feasible alternative pole is that represented by the Mercosur (or, more specifically, by Brazil), given that Venezuela and Canada are, as we have seen, constrained by a far greater economic dependence on the US.[29] What this has meant is that progressively the FTAA process has crystallized as a negotiation among blocs, and dominated specifically by two: the northern bloc led by the US, and a southern—possibly South American—bloc led by Brazil. Reflecting this format, the presidency of the FTAA process in its final stages is now held jointly by Brazil and the US.

Moreover, while Brazil is fully engaged in the FTAA process, its opposition to a US-led initiative has contributed to a situation in which each new move by the US has pushed Brazil closer to its subregional commitments,[30] and the Brazilians have consistently argued that while the FTAA is 'an option', Mercosur is 'our destiny'. Indeed, the cornerstone of the agenda of the new government of President Luiz Ignácio Lula da Silva, which formally assumed power in January 2003, is the active prioritization of relations with Argentina, the Mercosur and, most of all, South America. All this, in turn, derives from a concern to reinforce subregionalism, in its various guises, as a means of retaining influence over the shape of an integrated Americas, and resisting the unilateral definition of this shape by the United States: in da Silva's words during his presidential campaign, 'under present conditions, the FTAA will be not a free trade agreement but a process of the economic annexation of the continent by the United States, with extremely serious consequences for the productive structure of our countries.'[31] Similar premises underlie the recent evolution of the Andean Community's political and strategic outlook, reflected in recent statements to the following effect:

> The hemispheric project acts … to deepen dependence, rather than to create relationships of interdependence and mutual benefit, as long as the Andean Community countries do not establish sufficiently strong external links to compensate for this gravitation and do not strengthen the basis for a greater internal autonomy.[32]

Such aspirations are all well and good at a rhetorical level, but apparently not so good on the ground, at least to date. In all the subregions, but particularly in the Mercosur, collective negotiation has not been a roaring success. This is so for several reasons, which relate primarily to the divergence between visions of the hemispheric and subregionalist projects in member countries. As already mentioned, Brazil is distinguished in the subregion by virtue of its diversified trade structure, the extent of its extraregional trade, and the significantly lesser

[29] Gordon Mace and Louis Bélanger, 'The structural contexts of hemispheric regionalism: power, trade, political culture and economic development', in Gordon Mace and Louis Bélanger et al., *The Americas in transition: the contours of regionalism* (Boulder, CO: Lynne Rienner, 1999), p. 42.

[30] Maria Regina Soares de Lima, 'Brazil's alternative vision', in Mace, Bélanger et al., *The Americas in transition*, p. 136.

[31] *La Nación*, 23 Oct. 2002; author's translation.

[32] Comunidad Andina, 'El futuro de la integración política andina: reflexiones de la Secretaría General', Secretaría General, June 2001; author's translation.

importance of the North American market in its trade profile. For these reasons, first, the new multilateral round of trade negotiations is of considerably more concern than an FTAA. Indeed the reticence of the Brazilian government—and a sizeable part of Brazilian business[33]—towards the hemispheric project can be explained largely by the potential trade-off it represents with multilaterally agreed liberalization provisions in the WTO, and by the perception that FTAA and WTO processes stand at least potentially in competition with each other.[34] Second, there is a strong belief in Brazil that its import substitution project remains to be completed, and the threat to its industrialization process from the northern industrialized economies is therefore a challenge to be managed carefully. And third, the niche that Brazil has carved out for itself in the architecture of the hemispheric project is that of intermediary between these regional processes and negotiations with the EU, at the same time as it represents the principal counterweight to the US. While it would not do to overstate its opposition to the idea of an FTAA itself, Brazilian engagement in the hemispheric process is premised on the construction of subregional leadership as a means of steering the hemispheric process away from unilateral US dominance.[35] Negotiations with the EU similarly rest heavily on the notion of a relationship between blocs and hence Brazilian strategic interests remain tightly bound to the preservation of subregionalism.[36]

The Argentine vision of regionalism, by contrast, has been expounded by governmental actors as sitting at the intersection of the Mercosur and FTAA processes, and resting on an expansion of the regional bloc. While clearly not opposed to the idea of 'deepening' subregionalism favoured by Brazil, Argentine positions have consistently favoured the extension of the Mercosur and the construction of wider regionalist arrangements, reflecting its much greater relative dependence on regional markets. During Domingo Cavallo's second stint in the economy ministry, this vision was moulded more towards a preference for free trade areas over customs unions, and, in contrast to the Brazilian focus on bloc bargaining, featured an inclination towards bilateralism. This has been diluted since his departure, but still the Argentine vision of regionalism is premised significantly more on expansion than the Brazilian.

Uruguay, in turn, has pulled away from the Brazilian bid for subregionalism over hemispheric regionalism, becoming of late more strident in its preference for the latter and for bilateral relations with the US. Interestingly, the Uruguayan

[33] This portion of Brazilian business refers principally to smaller domestic firms oriented largely towards the domestic markets. Recent research has demonstrated that Brazilian multinational corporations have been on the whole in favour of an FTAA, including those which are active predominantly in the domestic market. See Denilde Oliveira Holzhacker and José Augusto Guilhon Albuquerque, 'Attitudes and strategies of multinational enterprises about regional integration in Brazil', mimeo, Research Centre for International Relations, University of São Paulo, March 2002.

[34] Marcelo De Paiva Abreu, 'Latin American and Caribbean interests in the WTO', in Diana Tussie, ed., *Trade negotiations in Latin America: problems and prospects* (Basingstoke: Palgrave, 2003), p. 23.

[35] Phillips, 'Governance after financial crisis', pp. 393–4.

[36] Andrew Hurrell, 'The politics of regional integration in MERCOSUR' in Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 201.

government appears to have started down a 'Mercosur-sceptic' path, opening a rift with a rather more robust Brazilian optimism about the future of subregionalism. President Batlle was recently reported to have branded the the idea of a common currency as 'absolutely impossible',[37] and the Uruguayan government has shown little hesitation in implementing countermeasures against the impact of the Argentine devaluation. The Paraguayans, by contrast again, have been reluctant to engage fully with the FTAA negotiations until their claims that they have been marginalized within the Mercosur have been more satisfactorily addressed. The dominance of primary and agricultural exports in Argentina, Uruguay and Paraguay also shapes a set of structural and negotiating imperatives in the hemispheric project rather different from those of the Brazilian state and business. Associate member Chile signed a bilateral free trade agreement with the US in December 2002, and has maintained significant autonomy from the rest of the Mercosur in its trade policy and negotiating strategies.

Together with the prevalent political tensions noted earlier, then, these divergent visions of regionalism have fed into divergent negotiating positions on the part of Mercosur member states. This is compounded by the peculiarities of the Mercosur process which, lacking any kind of supranational decision-making authority, necessitates the transfer of legislation entirely to the national level. In this respect the Andean Community has generally been rather more cohesive than the Mercosur, more successful at executing common negotiating positions, and much less inclined towards default bilateralism. This derives in part from an older agreement, more robust institutional structures and a certain devolution of authority to these institutions, but also from the greater commonalities of interests (and economic profiles) that exist among member countries. The pattern has been one in which different countries assume leadership on different issues and at different times.[38] The cases of CACM and CARICOM are also interesting in the discrepancy between initiatives to reinforce collective negotiating strength and the results of such attempts. In contrast with the Mercosur, Central American and Caribbean countries do articulate relatively successfully a set of common negotiating objectives, in good part because these objectives are largely limited to the single issue of special and differential treatment. In the case of CARICOM, also, there exists a Regional Negotiating Machinery (RNM) that has been deployed in a range of negotiations. However, effective coordination is nevertheless limited by the historically tenuous linkages between the English-speaking and other parts of the Caribbean basin, the pronounced weakness of institutional structures such as the Association of Caribbean States, economic dependence on the US and NAFTA, and of course the region's negligible clout in the negotiations themselves. Apart from these political and institutional issues, the elaboration of collective negotiating strategies is also constrained by the fact that the internal arrangements in several of the nine principal negotiating areas in the FTAA are notably weak or non-existent across

[37] *La Nación*, 27 March 2002.

[38] For example, in the FTAA negotiations Peru has taken the lead particularly on special and differential treatment for smaller countries and on indigenous rights.

the subregional blocs,[39] and consequently the elaboration of common positions is significantly complicated by a lack of precedent and expertise.

In sum, the rhetorical commitment to bloc bargaining might well be robust, but its practice immediately runs into a number of political, institutional and indeed economic obstacles. For many, the Mercosur appears to be a prime case of a fragmented negotiating agenda and divergent state strategies. Certainly present evidence suggests that the key negotiation in the final stages of the FTAA process will be not between blocs but rather between the US and Brazil (as opposed to the Mercosur). To date, in the bulk of FTAA talks, those common Mercosur positions that have emerged have been adopted on a 'meeting-by-meeting' basis, rather than reflecting the prior formulation of a unified strategy in the negotiations. In multilateral trade negotiations, Mercosur members negotiate separately (for example, in talks on China's accession to the WTO), although with some formalized patterns of communication among national negotiators. Finally, alliances in the FTAA negotiations to date have tended to be defined by issue area rather than by subregional bloc.[40]

Nevertheless, the rhetorical commitment is not entirely vacuous, and the recent trends discussed here indicate strongly that external negotiations are progressively constituting the 'glue' of the Mercosur. The articulation of the bloc as a 'strategic objective' provides some important incentives for the resolution of competing interests, and there has been some important progress on the sorts of policy harmonization necessary for participation as a bloc. By late 2002, for instance, both the Mercosur and the AC had agreed on common external tariffs for presentation as 'opening offers' in the FTAA negotiations.[41] Moreover, although manifestly imperfect, the handling of collective negotiation issues in the Mercosur has had some important consequences for the role of the bloc itself. A good example relates to the issue of special and differential treatment, in which the approach has been to negotiate first as a bloc, and then within the bloc to consider how to deal with, for example, Paraguayan interests, within the agreed framework.[42] In this sense, special and differential treatment becomes an internal affair within the Mercosur (in contrast with CARICOM, for instance), and in the context of the hemispheric process the Mercosur is progressively rearticulated as an arena in which such issues of adjustment might be negotiated among member countries. The same goes for other policy areas such as industrial competitiveness and investment, to which we now turn.

[39] The nine principal negotiating areas in the FTAA process, represented by the nine technical working groups established at the 1998 San José ministerial meeting, are: market access; agriculture; services; investment; government procurement; intellectual property rights; subsidies/anti-dumping/countervailing duties; competition policy; and dispute settlement.

[40] Interestingly, conversations with relevant actors have revealed that success in collective negotiation has also depended to a good degree on which country holds the presidency of the Mercosur. It worked well when Brazil held the presidency, somewhat when Argentina did, and scarcely at all when it was in Paraguayan hands. This might be to do with leadership questions, but is perhaps more to do with fundamental divergences between Paraguayan interests and those of other Mercosur members.

[41] *Informe ALCA*, Nov. 2002.

[42] I am grateful to Nora Capello in the Argentine Cancillería (Dirección de América del Norte y Asuntos Hemisféricos) for clarifying these and related issues to me.

Policy challenges

Aside from the accommodation of smaller and poorer economies, probably the principal challenge for Latin American and Caribbean economies revolves around the notion of competitiveness. The format of the FTAA, as we have seen, offers US government, business and financial interests the opportunity to force open Latin American economies, especially the large Brazilian market, and to propel the region in a direction consistent with these interests. It also implies a process by which those economies and subregions most dependent on the US are further drawn into the orbit of the US economy: many Caribbean economies, as well as parts of Mexico, are increasingly styled as EPZs and offshore arms of the US productive structure, and the structural implications of the hemispheric project point to a reinforcement of this dependence. The emerging political economy of the Americas thus represents a microcosm of the global entrenchment of a division of labour in which many developing countries are inserted into the world economy as exporters of raw materials or semi-finished goods, or on the basis of their supply of cheap and unskilled labour.

This is so primarily because of the marked lack of competitiveness of Latin American and Caribbean economies and products in both global and regional marketplaces. Particularly in an FTAA in which minimal liberalization is envisaged in agricultural trade or other key sectors, the lack of industrial competitiveness brings with it considerable and daunting adjustment costs for almost all economies. Brazil, clearly, has the most to lose in this respect from an FTAA. Its massive domestic industrial base is not competitive with that of North America, and an FTAA of the type envisaged by the latter would be a disaster for Brazilian industry. As we have already seen, while Brazilian products are competitive in the subregional market, the emerging form of hemispheric free trade is seen frequently by both business and state sectors to represent a sizeable threat. Recent polls in São Paulo indicate that 52% of executives surveyed had not yet taken a firm view of the FTAA, and 22% were in favour of extending the 2005 deadline in order to allow potential losers to adjust to the impact of increased competition.[43] In Argentina, too, the emphasis has fallen on the costs of adjustment implied by hemispheric free trade for domestic and subregional economic interests. A 1998 survey by the Unión Industrial Argentina (Argentine Industrial Union), for instance, indicated that 70% of Argentine firms did not feel prepared for an FTAA, and one assumes that the impact of the current economic crisis will have increased that proportion.

These issues are not only central to current domestic policy debates, but also increasingly the crux of subregional debates. More importantly, subregional projects appear increasingly to be redefined as vehicles through which these challenges might most profitably be met. In this context, emphasis has fallen on the economic conditions which need to prevail if participation in an eventual

[43] Cited in Diana Tussie, 'Traversing the hemisphere: the dilemmas of a necessary friendship', paper presented at the NetAmericas conference, Washington DC, 20–21 Nov. 2002.

FTAA is to be meaningful. In both the Mercosur and the AC, and indeed in CARICOM and the CACM, prescription has revolved around the perfection of customs unions and the construction of common markets as environments in which adjustment and the enhancement of competitiveness might most profitably be pursued. The achievement of these objectives is seen to rest centrally on the progressive coordination of policy among the member countries of the subregional blocs, as a means both of overcoming the limitations on state capacity at the domestic level and of maximizing efficiency and the advantages of economies of scale. The articulation of this objective, of course, is also buttressed by the build-up of pressures for collective multilateral solutions and convergence in key policy areas as a consequence of recurrent political and economic crises in the Mercosur. The 2000 'relaunching' of the Mercosur was precisely about this need to start to level the playing field and address some of the concerns of competitive disadvantage that accompanied the Brazilian devaluation of 1999 and subsequently the Argentine crisis of 2001–2.

The bulk of relevant initiatives in the Mercosur are tied up with the nascent process of macroeconomic harmonization, a first step towards which has been statistical harmonization, followed by progress towards the negotiation and agreement of common fiscal targets. Crucially, issues of taxation, investment and other economic policies that are necessary accompaniments to fiscal reform are also part and parcel of the emerging process of macroeconomic convergence. Of these, investment and competition policies are particularly salient, and likely to occupy a progressively more central place in internal negotiations, in line with the broader underlying objective of attracting FDI to the subregion. Undoubtedly, early movements in the area of competition policy turned out to be largely illusory—the 1996 Protocol for the Defence of Competition is still awaiting congressional approval to make it legally enforceable—but there have been a handful of subsequent initiatives which indicate some (slow) progress towards the agreement of certain subregional norms. Examples include the establishment in 2000 of a working group on investment incentives, and Argentina's 1999 Defence of Competition Law, which aligned Argentine competition policy more closely with Brazil's and might well facilitate the advance of harmonization.[44] The negotiation of agreements on investment in an FTAA would serve as a useful additional brake on divergence among Mercosur countries in this respect, and indeed might compensate for the deficiencies of internal arrangements in this area, but the rationale of the subregional economy of scale for the attraction of FDI is not displaced. In the Mercosur, this is particularly evident in the automobile sector, in which international investors were attracted to the availability of a regional market as a stronger base for their global production strategy.[45]

[44] Daniel Chudnovsky and Andrés López, 'Policy competition for foreign direct investment', in Tussie, ed., *Trade negotiations in Latin America*, p. 151.

[45] Sheila Page, 'Regional integration and the investment effect', in Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 53.

There is also some evidence of a creeping 'rationalization' of operations in the Southern Cone by MNCs in other sectors—pharmaceuticals, for instance—which, although not necessarily meaning the displacement of exports in the sales profiles of these corporations, certainly does reinforce the potential gains from the successful negotiation of common competition policy.

The final point to make about investment relates to outward flows from the Mercosur economies, and to the progressively more robust internationalization strategies of indigenous firms. Recent research demonstrates that in Latin America Chilean and Mexican firms are at the forefront of this first 'wave' of internationalization, followed by Argentina and then Brazil, in a sequence which apparently reflects strongly the timing of liberalization in these economies.[46] Those firms that have adopted successful international strategies, furthermore, are concentrated in a number of key sectors: oil and energy, first and foremost, along with food and drink, mining, paper, cement, and telecommunications (the last predominantly in joint ventures with MNCs).[47] The most interesting point for present purposes, though, is that the internationalization strategies of such firms have been focused overwhelmingly on the regional marketplace and have only exceptionally been about more 'global' strategies of production. These 'regionalization' strategies are particularly pronounced in Argentina, and less so in Brazil, where MNCs remain significantly more dominant. The exception in the Brazilian case is the export of services, and especially financial services, which dominates trade with Mercosur partners.[48] The point is twofold: first, that the attraction of FDI is vital for the emerging internationalization strategies of local firms, and that the subregional market constitutes a central incentive to inflows of FDI; and second, that evidence suggests that the Mercosur arena is consistently used as a 'stepping stone' to more global production strategies, and styled as an 'incubator' of industrial competitiveness for this purpose.

Again, it must be stressed that the prospects of achieving the macroeconomic coordination that would be necessary for any genuine policy harmonization at the subregional level are at best complicated, and that these 'redefined' strategies of economic management have yet to become fully entrenched in subregional and domestic policy agendas. A common market remains a remote prospect for any of the existing subregional blocs, for a range of reasons that are different in each case, and indeed customs unions remain similarly limited. Furthermore, there are sharp discrepancies in the leeway governments enjoy in such matters, especially the fiscal considerations entailed. Especially given the poor health of the Argentine economy and the accompanying crisis of the state, it would be excessively optimistic to envisage radical innovations in development strategy. The political tensions within the Mercosur are equally—and perhaps more—a cause for concern, as, arguably, are the lack of institutions through which a

46 Daniel Chudnovsky, Bernardo Kosacoff and Andrés López, *Las multinacionales latinoamericanas: sus estrategias en un mundo globalizado* (Buenos Aires: Fondo de Cultura Económica, 1999), p. 54.

47 Ibid., p. 32.

48 Page, 'Regional integration and the investment effect', p. 56.

deepening of the Mercosur might be channelled, and the divergence between economic and political projects.

Nevertheless, this sceptical assessment does not quite get to the heart of the relationship between regional and subregional policy. There is certainly a feeling that a good number of the most obvious sticking points in the Mercosur (such as services and investments) will be negotiated at the hemispheric level, thus overcoming the political and economic obstacles within the subregion. This point might well be used as part of an argument that the Mercosur will lose validity as much of the policy framework becomes standardized outside its borders. However, it is important to recognize that the Mercosur and FTAA processes are completely separate, and treated as such within the Mercosur. The central aims are similar—namely, to eliminate export subsidies and to restrict the use of measures such as anti-dumping provisions in trade relationships—but it is precisely these issues that might best be treated in the Mercosur, especially given the refusal of the US to open them for negotiation at the hemispheric level or in the WTO. Furthermore, there is no necessary correspondence between Mercosur policy, on the one hand, and negotiating positions in the FTAA, on the other. The activities of the national working groups and institutions that are involved in the FTAA negotiations are oriented exclusively towards the FTAA, and are not required to coincide with the activities of their Mercosur-related counterparts. Consequently, in areas such as industrial policy, treatment of smaller and poorer economies, anti-dumping and restrictive trade practices, perhaps social policy, and perhaps even dispute resolution, the Mercosur presents an arena in which subregionally appropriate policies (or those which fill the gaps left at the hemispheric level) might be designed. While moves in this direction are still in their early days, and there is pressure, particularly from Chile and the smaller countries, for a recognition of the importance of institutional structures if this function is to be realized, this reconfiguration of the function of subregionalism constitutes the essence of its relationship with the hemispheric process.

Reconfigured subregionalism?

So, summing up, what does all this tell us about the implications of hemispheric regionalism for subregionalism? We have seen that while there are strong rhetorical tendencies towards establishing subregionalism as the basis for bloc bargaining and also as an arena for undertaking the necessary adjustment processes, in neither of these two areas can we claim with much conviction that subregionalism is effectively or concretely being 'strengthened'. If we dispense with this strengthening/weakening dichotomy, though, a more appealing line of argument presents itself: that the impact of hemispheric regionalism is felt principally in the reconfiguration of the nature and purpose of subregionalism that is currently in evidence across subregional blocs, including in the Mercosur. The substance of this reconfiguration rests on three pillars.

The first is the progressively greater emphasis on the pursuit of political and strategic objectives, notably as a means of circumventing or diluting US dominance in the region. This is particularly so, as discussed, in the context of the FTAA negotiations, and more broadly in the Summitry of the Americas. Along with its importance for extraregional negotiations, such as those with the EU, and particularly for Brazil, subregionalism thus remains strategically critical across Latin America and the Caribbean. The use of subregionalism as a means of offsetting US dominance can also be seen in the Brazilian government's increasing assertiveness in addressing political instability and in its key diplomatic interactions with countries such as Paraguay, Ecuador, Peru, Venezuela and—most significantly for the US—Colombia and Cuba. Andean countries themselves have indicated their intentions to develop joint strategies for addressing the range of subregional security problems (particularly drugs) as well as free trade, as an alternative to the traditionally dominant interventions of the US. Of course, regional economic leadership apparently remains some way beyond Brazil's grasp, some of these strategies have remained primarily rhetorical, and there are important questions about subregional capacity for dealing with these key issues. Nevertheless, there has been an important leaning throughout South America towards the formulation and execution of subregional policy strategies independently of the traditionally dominant foreign policies of the US.

Second, and by extension, there is a clear trend towards what has been called 'multi-thematic regionalism',[49] which encompasses the elaboration of subregional strategies in areas relating to security, drugs, the environment, democracy and social policy. In many instances (for example, in Central America) this tendency was developed as a concrete reaction to the stagnation of progress towards a common market. Although not particularly successfully, Central American and Caribbean regionalism has for some time now been moulded towards political and developmental objectives. Certainly this is the sort of regionalism which is likely to prevail in these smaller blocs, where economic regionalism is indeed likely to be subsumed either into the hemispheric project or, at the very least, into North American regionalism. In the Mercosur and the AC, this multi-thematic regionalism is much more likely to extend to the management of key trade and economic policy issues, as discussed above, but in both cases an expansion of the scope of subregionalism to other political and security issues is equally in evidence.

Third, this economic agenda features a movement away from a focus on tariff liberalization towards an emphasis on the subregional arena (protected putatively by a common external tariff) as a site for the adjustment necessitated by a wider regionalist project. While many key trade-related policies (such as services, investment provisions, intellectual property rights, government procurement rules and so on) might well be standardized at the hemispheric level, this does not represent a constraint on the elaboration of parallel strategies at the

[49] Delgado Rojas, 'Los temas no comerciales del ALCA', p. 58.

subregional level, and indeed policy frameworks in these two arenas are explicitly separated. At present, in the Mercosur, most emphasis has fallen on industrial policy, competition policy and harmonization of national investment regimes, along with some talk—as in the other subregions—of the elaboration of coordinated social policies.

This reconfiguration of subregionalism is central to an understanding not only of the impact of the hemispheric project, but also of the politics of hemispheric regionalism. This article has offered some preliminary observations about the nature of this reconfiguration, and has sought to draw attention to the diversity across subregions of the ways these processes are manifesting themselves. Even if bilateralism were to be superseded, the signs are that hemispheric regionalist processes will coexist with subregionalist projects, criss-crossed with complex extraregional relationships and moulded by multilateral processes. The resulting architecture of the Americas is thus most likely to add a further intricacy to the existing patchwork of integration patterns.